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LOSSES; PSDB GAINS

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11. Summary. In Sao Paulo and the South, the PSDB was the big winner and the PT the big loser in the second round of the Brazilian municipal elections on October 31. The PT lost control of the two biggest prizes in the region, Sao Paulo and Porto Alegre, the second of which the party had governed for the last 16 years. Although it defeated the PSDB in several important cities in Sao Paulo state, overall, the PT lost ground to the PSDB in the 27 largest cities in the state. The PSDB's victories in Sao Paulo, Curitiba and Florianopolis, capital cities the party has never previously governed, will undoubtedly fortify the party's position in the run-up to the 2006 presidential election. Jose Serra's decisive victory (55% - 45%) over incumbent PT mayor Marta Suplicy also bolsters PSDB Governor Geraldo Alckmin's position among the party's "presidenciais," or potential presidential nominees. In Parana state, the PT loss in Curitiba was also a major loss for PMDB Governor Roberto Requiao, who had strongly backed the PT candidate in that race. The PPS also gained strength in the southern state of Rio Grande do Sul, with victories in Porto Alegre and Pelotas. END SUMMARY

SETBACKS IN SAO PAULO AND RIO GRANDE DO SUL

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12. The PT lost big in the two states -- Sao Paulo and Rio Grande do Sul -- where it traditionally has had its strongest base of support. In addition to losing the capitals, Sao Paulo and Porto Alegre, the PT lost ground in the major cities in both states. PT party president Jose Genoino acknowledged that the party's losses in these states were "very heavy defeats" for the party, though he denied that they indicated that the party was facing a "crisis." In Sao Paulo state, among the 27 cities with populations over 150,000, the number in PT hands fell from nine to five. The results were mixed for the PT in the large industrial suburbs (known as the ABC region) of Sao Paulo. It defeated the PSDB in the second round in Santo Andre, Diadema and Osasco (which the PSDB has governed for the last eight years), and won reelection in Guarulhos in the first round on October 3. The PT defeat of the PSDB in Osasco, the hometown of Federal Chamber of Deputies President Joao Paulo Cunha (PT), may strengthen Cunha's hand in jockeying with other PT stars for a spot in Lula's cabinet or for a gubernatorial run in 2006. In other ABC cities, the PT lost Sao Caetano to the PTB, and failed yet again to win in Sao Bernardo, Lula's hometown. PT incumbents did not make it into the second round in the key interior cities of Riberao Preto, Campinas, Piracicaba and Sorocaba. The PT suffered an upset second round loss in the important port city of Santos, where former PT mayor Telma da Souza had been expected to win her bid to return to office.

13. The PSDB, and specifically Governor Geraldo Alckmin, were the big winners in the state. Alckmin noted that the party had the best performance in the state since it was founded in 1990. In addition to the capital, the PSDB took Sorocaba, Riberao Preto and Piracicaba away from the PT. The party will now govern 10 of the state's largest cities, one more than their current total, and twice the number of any other party. Control of these voter rich cities will undoubtedly help the party consolidate its position as the strongest party in the most populous state in Brazil. The party's success helps to burnish Alckmin's own standing within the party and as a potential player on the national stage, though the Governor has little visibility outside his home state. Alckmin threw his own political capital strongly behind Serra in the capital, demonstrating his effectiveness as a political godfather. He did the same in Sorocaba, where he participated actively in the campaign in the first round, supporting both the PSDB and PFL candidates to deny the incumbent PT mayor a slot in the second round.

14. The PT's performance in the southern state of Rio Grande do Sul was equally dispiriting for the party faithful. In addition to losing Porto Alegre, the first major city

governed by the PT, where it has been in power for the last 16 years, the party was ousted from power in Caxias do Sul and Pelotas, the state's second and third largest interior cities. The party will now govern in only one of the state's five largest cities. The PT won reelection in Santa Maria in the first round, but failed to dislodge the PSDB incumbent from city hall in Canoas. As in Sao Paulo state, while the PT was the big loser, the governor was the big winner in Rio Grande do Sul. Though he remained ostentatiously neutral in all of the first round races in his state, reportedly to avoid causing difficulties among the state's governing alliance, PMDB Governor Germano Rigotto threw his support to the opposition candidates in all three cities with run-off races. Though he did not campaign actively with Jose Fogaca, the PPS victor in Porto Alegre, until the final days of the campaign, he made his support for the opposition alliance clear. In his home city of Caxias do Sul, where the incumbent PT mayor remains very popular, Rigotto's support was instrumental in helping the PMDB's Jose Ivo Sartori, defeat the PT's Marisa Formolo. The PMDB will control city hall in 137 of the state's 496 municipalities, the greatest number of any party in the state. Overall, parties that comprise Rigotto's governing base will hold power in a total of 441 cities. The other winner in the state was the Popular Socialist Party (PPS), which in addition to winning in Porto Alegre, also ousted the PT in Pelotas and picked up 3 additional cities in the first round. The PPS victories in Rio Grande do Sul, which notably were at the expense of the PT, may strengthen the "oppositionist" wing of the PPS party, which has suggested that the party leave the national governing alliance.

#### THE PSDB BREAKS NEW GROUND IN PARANA AND SANTA CATERINA

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15. The PSDB's victories in Curitiba and Florianopolis, the capitals of Parana and Santa Catarina states, will bolster the party's position in a region where it has not previously had much of a presence. In Curitiba, the PSDB's Beto Richa convincingly defeated the PT's Angelo Vanhoni (55% to 45%); Vanhoni had been favored to win until well into the first round campaign. The city is currently governed by the PFL. In addition to failing to pick up the capital, the PT lost control of two of the state's three largest interior cities. The losses in Parana's big cities will more than offset the PT's success in more than doubling the number of small to medium sized cities it governs in the state. Along with the PT, the big loser in Parana is PMDB governor Roberto Requiao, who bet heavily on Vanhoni in Curitiba and the defeated PT incumbents in Ponta Grossa and Maringa. In an indication of how closely the polemical Governor had become identified with the PT candidate in Curitiba, the victory celebration by Richa supporters took place outside the governor's palace, rather than at one of the more traditional political gathering points in the city. Former Governor Jaime Lerner was among many who blamed Requiao for Vanhoni's defeat, stating that the Governor succeeded in "burying Vanhoni's candidacy, and that the vote represented a veto of the Governor's "arrogance and authoritarianism."

16. In Santa Catarina, Dario Berger's win over PP candidate Chico Assis in Florianopolis will help firm up the PSDB's still tentative foothold in the state. The PSDB incumbent won a first round victory in Joinville, the state's largest city. In both cities, the PSDB candidates benefited from the active support of PMDB governor Luiz Henrique da Silva, who thus emerges from the municipal elections strengthened vis-a-vis the PP's Angela Amin, the outgoing mayor of Florianopolis and one of his most likely opponents in the 2006 race for governor.

#### COMMENT

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17. The PT's electoral setbacks in the South loomed so large that even party president Jose Genoino made no attempt to hide his dismay. The party lost Sao Paulo and Porto Alegre, the two largest state capitals in the South, and the two most important cities the PT governs. At the national level, the PT will undoubtedly spin the election results in the major cities of Sao Paulo and the South by focusing on the party's gains in smaller cities and regions outside its traditional base. It will not be able, however, to disguise the fact that it suffered serious setbacks, in particular by losing control of Sao Paulo and Porto Alegre. The PT will undoubtedly be picking through the entrails of its defeats there for some time to come. Among the fall-out we anticipate from this self-examination are a further weakening of the influence of the leftist gaúcho wing of the party on the national party leadership and the Lula government, and a heated competition for the PT gubernatorial nomination in Rio Grande do Sul in 2006. The PT gubernatorial selection process in Sao Paulo state will also likely become more complicated, as Marta Suplicy may well mount an effort to dislodge PT Senator Aloizio Mercadante from his perch as the reputed party favorite for

the nomination. The PSDB emerged from the elections energized not only in Sao Paulo but in the southern states of Parana and Santa Caterina. END COMMENT.

18. This message was coordinated with Embassy Brasilia.

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